JULY 1951

THE

BUSINESS REVIEW

FEDERAL RESERVE BANK OF PHILADELPHIA

THE "UNFORESEEABLE" FUTURE

Business during the past year was characterized by spasmodic consumer spending and generally high levels of production, employment, and income. The rise in defense production, a record volume of business expenditures for plant and equipment, and a large volume of purchasing power continue to exert strong upward pressures. Recent developments, such as hesitant consumer buying, some softening of prices, heavy inventories, and the truce negotiations in Korea, have caused some apprehension about the future. Forecasting is hazardous because all of the factors influencing the course of business can not be foreseen. Over-all developments point toward continued upward pressures but do not preclude short-term reactions.

CURRENT TRENDS

Failure of gears to mesh smoothly in converting to defense production was reflected in declining production, department store sales, and construction in May.

THE "UNFORESEEABLE" FUTURE

It was just one year ago that the North Koreans moved across the 38th parallel and fired the shots that reverberated around the world. The reaction in the United States was immediate and resolute. It was to defend freedom—by force if necessary—and a greatly enlarged defense program was launched. The major goals were to equip an armed force of 3½ million, to build up a reserve of supplies and equipment sufficient for one year of all-out war, and to expand defense production capacity and stockpile strategic materials so that military equipment and supplies could be turned out in vast quantities should full-scale war come.

This stepped-up defense program hit the American economy when it was already riding the crest of a boom. Construction was at an unprecedented level; production in the heavy goods industries such as steel and automobiles was at or near an all-time peak; and employment had equalled the 1948 high. A peak level of consumer spending was being fed by a record flow of personal income after taxes, and expanding credit. The Federal Government was operating at a deficit; bank loans were nearly $4 billion higher than at the same time the year previous; the money supply (currency and bank deposits) was nearly $4 billion above the preceding year; and depositors were spending their deposit dollars faster. Inflationary pressures had already made their appearance and were pushing prices up even before the outbreak of fighting in Korea.

The business and financial record of the first year since Korea is an array of plus signs. Total production, industrial production, construction, employment, consumer spending, business spending, Government spending, consumer income, business income, bank loans, the money supply, wholesale and retail prices—all major indices of business activity shared in the increase and are above a year ago. The rate of expansion, however, was not the same in all areas. A notable disparity developed between spending and goods. Spending rose more rapidly than the output of goods and services and prices rose sharply.

The major force driving business activity upward was the defense program. Its influence, however, was mainly in the form of a spasmodic stimulus to consumer and business purchases rather than a direct absorption of goods and services. The outbreak in Korea sent consumers and businessmen scurrying to stock up on goods they thought might soon become scarce or, if available, only at considerably higher prices. This wave of consumer buying receded after two or three months, only to be followed by a greater torrent near the end of the year. Once more consumers found goods were available, and demand slackened. At present, consumer buying is in good volume, but to many businessmen, inventories appear heavy. Business spending has been heavy but steadier.

Despite the high volume of production, employment, and income, there is growing apprehension about the business outlook. The question uppermost in the minds of many is what about the future? Those who take a darker view of the outlook point to a lag between the cutbacks in the materials for civilian production and the increase in defense production, which may result in an increasing number of shut-downs; the slackening of consumer demand; excessive inventories; the drop in residential construction; a reduced availability of credit; and the psychological reaction which would probably follow a negotiated truce in Korea. Those who are more optimistic about the outlook stress the growing volume of defense spending; the all-time record rate of capital expenditures; a large reservoir of purchasing power fed by a rising level of personal income after taxes; an ample though less readily available supply of credit; and a continued rising volume of defense spending even if a peaceful settlement is negotiated in Korea.

Confronted with these crosscurrents in our thinking, how can one go about appraising the situation? Is it possible to come to any conclusion as to the probable course of business during the next few months? In this connection, it may be helpful to examine recent and prospective business and financial trends with respect to some of the important requirements for stability.

ELEMENTS OF STABILITY

A first step in analyzing the outlook is to erect a framework which will focus attention on those factors which are strategic in shaping the course of business. People differ, of course, as to what the strategic factors are, but there is probably general agreement that the following bear careful analysis: (1) the total flow of goods in relation to the total volume of spending; (2) the pattern of production in relation to the pattern of demand; and (3) maladjustments in the flow of goods from producer to consumer.

Business stability at high levels of production and employment requires that the total volume of production be in balance with the total volume of spending. If total spending becomes too large, it generates rising prices and inflation; if too small, insufficient demand brings falling prices and depression. Balance between total production and total spending is not sufficient, however. Production of each of the many types of goods and services must be geared to the demand for them; otherwise, excessive production in major industries may initiate a general business readjustment with declining production and employment. Another requirement for a stable and high level of business activity is a smooth, steady flow of goods from producers to consumers. Excessive inventories or widespread speculation which generates fictitious values may also cause trouble.

Goods versus Spending

During the major part of the post-war period, there has been a persistent tendency for the flow of money or spending to exceed the available supply of goods. Since mid-1950, total spending or demand has greatly exceeded the available supply of goods, and both wholesale and retail prices have risen substantially.

The flow of goods. Our economic machine is running at about full capacity. The industrial production index is about 12 per cent above a year ago and more than double the 1935-1939 average. The total value of all goods and services produced in the second quarter of this year was at an annual rate of about $320 billion as compared to $272 billion in the second quarter of 1950. Only a part of this increase — perhaps less than one-half — was in physical volume, the remainder representing an increase in value resulting from the sharp rise in prices. Conditions in the labor market also reflect the high level of production. In June there were nearly 62 million employed in our factories, mines, stores, service establishments, and on the farms. The increase from May to June this year was less than usual. Unemployment is only about 2 million now as compared to 3.4 million a year ago. These and other production indices register the large volume of goods flowing from our farms, factories, mines and service establishments.

In a semi-war economy, total production is not an accurate index of the amount of goods available for consumers. An increasing proportion of our output must go to the Government for defense. Despite the increase in output since mid-1950, some further cut-backs in civilian production appear inevitable. The first effects of the diversion of materials to defense production are beginning to appear in the durable goods industries. Under the Controlled Materials Plan, effective July 1, manufacturers of non-defense goods will be allotted only 70 per cent of the steel used in an average month between January and July 1950, only 60 per cent of the copper used during the base period, and only 50 per cent of the aluminum. The outlook for the civilian supply of consumers' durable goods is not as gloomy, however, as these cutbacks might indicate. Production has been running at a very high level thus far this year, and substantial inventories have been accumulated. In addition, the American manufacturer has often demonstrated his ingenuity in substituting less critical materials for those in short supply. Some Governmental authorities have estimated the output of certain durables in 1951 as follows:

Item	1951 (*estimate*)	1950 (*actual*)
Refrigerators	4.7 million	5.8 million
Television sets	6.0 "	7.5 "
Automobiles	5.5 "	6.3 "
Tires	65.0 "	79.0 "

The flow of spending. The spending stream flowing into our markets for goods and services is fed by three major tributaries: (1) consumption expenditures; (2) business expenditures; and (3) Government expenditures.

Consumer spending, the largest tributary, has been pouring a torrent of purchasing power into our retail stores since Korea. It has risen over 10 per cent to an estimated annual rate of $200 billion during the second quarter of this year. Consumer buying in the last year has been unusually spasmodic, reflecting shifts in consumer fears and expectations. The outbreak of fighting in Korea created

fears of shortages and higher prices, and touched off a heavy wave of buying in the third quarter of 1950. The rise in consumer spending during this quarter exceeded substantially the rise in personal income after taxes and was made possible because consumers were willing to go into debt and draw down some of their liquid assets. This wave of consumer purchases was concentrated in the durable goods industries as consumers tried to stock up on goods they feared would soon be in short supply.

Consumer demand receded after a few weeks and then turned upward again in December, reaching another peak in January 1951. This upsurge in consumer spending was not concentrated as heavily in the durable goods industries as the previous one. Consumer purchases of nondurables also rose, but most of the increase reflected higher prices rather than an increase in physical volume. In general, consumer expenditures for nondurable goods rose about in proportion to the rise in prices. Once again the wave of consumer spending has receded, and although still at a high level, merchants are worried about their inventories.

Business spending, in contrast to consumer buying, has shown a fairly steady upward trend. Expenditures for plant and equipment were estimated at $23.9 billion for 1951, but recent estimates indicate this amount may be exceeded. New orders received by manufacturers of durable goods, which were rising more rapidly than shipments until recently, resulted in a substantial increase in unfilled orders. The backlog of unfilled orders totaled $47 billion at the end of May as compared to $19 billion a year ago. This backlog is equivalent to about four months of sales at the high rates prevailing during the first quarter. Manufacturers' inventories are smaller in relation to unfilled orders than they were at this time last year. At first the rise in manufacturers' inventories reflected primarily an accumulation of raw materials, but more recently there has been an increase in goods in process. Thus far there has been little increase in manufacturers' stocks of finished goods. Total business inventories, seasonally adjusted, have increased about $16 billion since mid-1950, the major part being stocks of manufacturing firms.

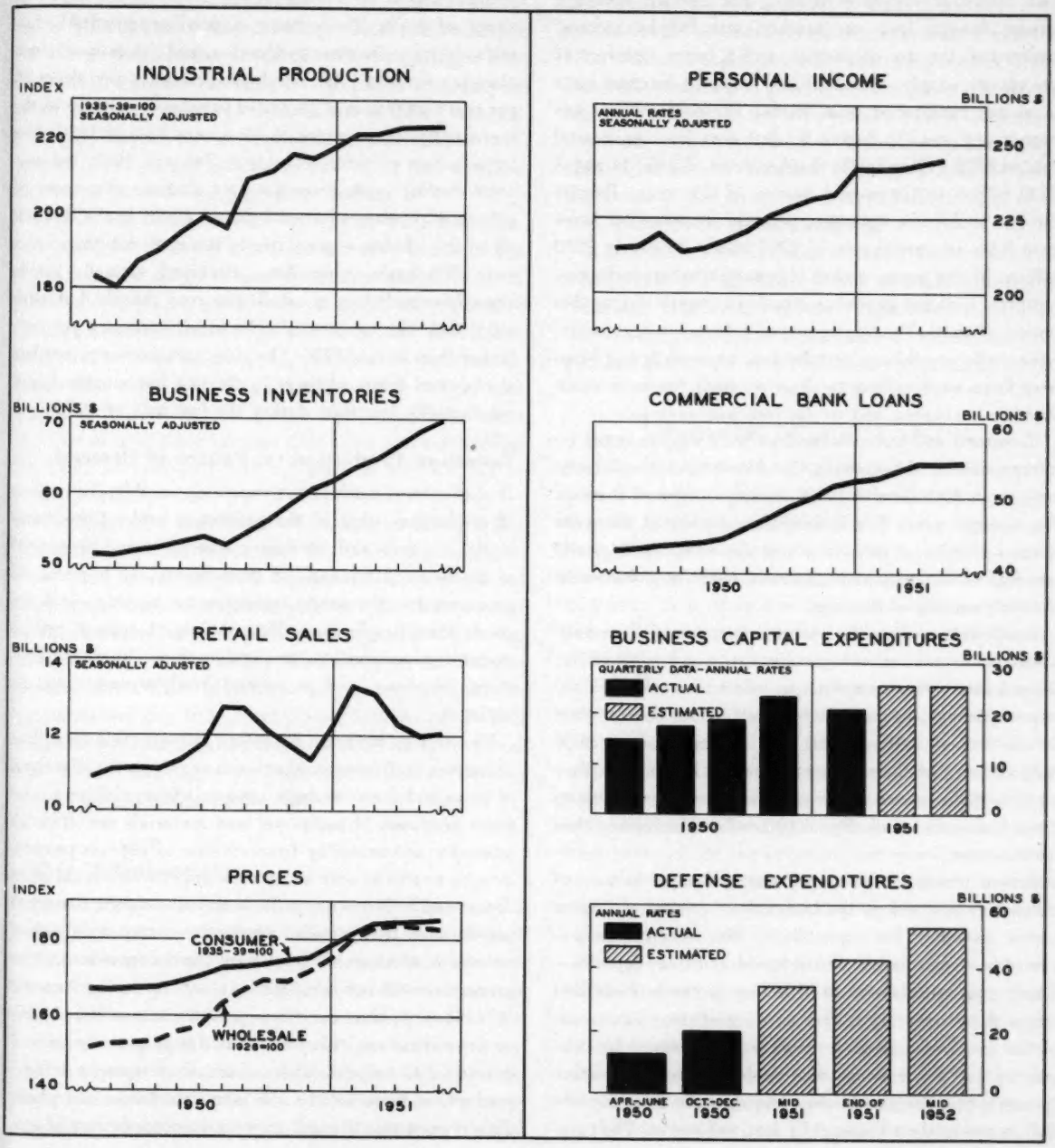
Non-residential construction has also risen steadily during this period. The prospects that credit regulation might be extended to business structures and that Government controls over key materials would limit the supply available for non-defense purposes were special factors tending to stimulate commercial and industrial construction.

Disbursements for defense equipment, in contrast with the placement of new orders, has just recently begun to rise substantially. Federal, state, and local government purchases of goods and services were at an annual rate of about $61 billion in the second quarter of 1951, as compared to $48 billion in the last quarter of 1950. Government purchases in the second quarter absorbed about 19 per cent of our total output. National defense expenditures, including closely related items such as stockpiling of strategic materials, atomic energy, and foreign assistance, accounted for the increase, rising from an annual rate of about $23 billion in the last quarter of 1950 to $34 billion in June this year. Since the Korean invasion, about $42 billion of defense orders have been placed. Deliveries, on the other hand, have totaled only about $10 billion. At the present time, deliveries of end items and construction activity have reached a level of about $1½ billion monthly, as compared to less than one-half billion dollars monthly before Korea. The delivery rate is scheduled to rise to $4 billion monthly by next June.

The defense program has been the fundamental force pushing output upward since mid-1950, primarily through its influence on consumer and business spending. The effect of the enlarged defense program on the total demand for goods and services will depend largely on how it is financed. Defense production adds to both personal and business incomes but it does not add to the supply of civilian goods for these incomes to buy. Consequently, the defense program tends to create an inflation gap between the demand for and the supply of civilian goods. Unless the Government siphons off enough current income to pay for the defense program, there will be more money to buy fewer goods. Thus far the Treasury has been operating on a "pay-as-we-go" basis; in fact, there was a substantial cash surplus for the fiscal year just ended.

The outlook, however, is not so bright. Recently, the Treasury estimated that receipts will fall short of meeting expenditures for the present fiscal year by as much as $10 billion. It is essential, therefore, that steps be taken promptly to prevent this deficit. Non-defense expenditures should be cut as a first step. Then taxes should be raised enough to balance the cash budget. A balanced budget is neither inflationary nor deflationary. It simply means that the Treasury is siphoning off as much income via taxes as it is pouring back via expenditures. Certainly, a deficit should be avoided at all costs. This is no time to inject new money into the spending stream via deficit financing.

BUSINESS AND FINANCIAL TRENDS 1950-51



Sources of buying power. The size of the spending stream is controlled primarily by: (1) the amount we have available to spend, and (2) our willingness to spend it. The tremendous volume of buying during the last year was possible only because consumers and businessmen had plenty of spending money. The swollen spending stream flowing into our markets was fed by income, borrowing, the use of savings, and a faster turnover of the money supply. Personal and business incomes after taxes are running at peak levels. Personal income has been rising steadily during the last year from an annual rate of $225 billion in the third quarter of 1950 to about $247 billion in the second quarter of this year. Despite the rise in income tax rates, personal income after taxes rose from an annual rate of $205 billion to nearly $220 billion in the same period. Consumption expenditures, however, were not geared as closely to income during this period as usual. The buying waves, referred to previously, were made possible in part because consumers and business firms were willing to draw on their future incomes through borrowing and to dip into past savings.

Consumer and business incomes were supplemented by a large amount of borrowing. Total commercial bank loans rose about $9 billion in 1950—an unprecedented increase for a single year. The increase has continued this year despite a series of actions to restrain bank lending, and seasonal influences which generally result in a decline in the early months of the year.

In addition to spending a large proportion of their available income and borrowing, consumers and business firms dipped into their savings in an effort to stock up. Consumers drew down their time deposits about $500 million in the second half of 1950 and redeemed about $500 million more of their Series E Savings Bonds than they bought. Redemptions of Series E Bonds are continuing to exceed sales, but time deposits have been increasing thus far this year.

Recent trends in the money supply and in its rate of circulation also reflect the tremendous volume of buying power available for expenditure. The money supply—currency in circulation plus demand and time deposits—which now totals about $174 billion is nearly $5 billion larger than a year ago. The more rapid rate of turnover of the large volume of demand deposits owned by consumers and businessmen was probably more important in supporting the post-Korean buying wave than the new dollars put at their disposal by loan expansion. The turnover of demand deposits at banks in leading cities outside New York has increased about 15 per cent since June 1950, and was at a more rapid rate than for any similar period since 1937.

Prices. Prices are the barometer which reflect the interaction between the volume of spending and the available supply of goods. The increase in spending exceeded industry's ability to increase production, and prices have risen sharply since mid-1950. Wholesale prices are now about 16 per cent higher than at the end of June last year, most of the increase having occurred in the second half of 1950. The introduction of price controls in January 1951, the seasonal decline in the money supply, and the abatement of consumer purchases have all played a part in the leveling off of the wholesale price rise in the early months of this year. Wholesale prices have remained virtually stable since March. Prices at retail also rose sharply but with a time lag. The consumers' price index is about 9 per cent higher than at mid-1950. The rise in consumer prices has also slowed down, changes in the last few months being substantially less than during the last half of 1950.

Pattern of Production vs. Pattern of Demand

If our business machine is to operate smoothly, the pattern of production—that is, the amount of each of the many kinds of goods and services produced—must be geared to the demand for each of these goods and services. If producers in some major industries are turning out more goods than people are willing to buy at current prices, inventories accumulate, production slows down, employment decreases, and a general readjustment may be initiated.

The defense program is the key factor in this area. The sharp rise in defense production is requiring the diversion of more and more strategic materials from civilian to defense purposes. If manpower and materials are diverted promptly and smoothly from civilian to defense production, there will be only a small amount of transitional shutdowns and unemployment. If, however, strategic materials are diverted from civilian production more rapidly than defense production absorbs them, the decrease in civilian production will not be offset by a corresponding increase in defense production. Consequently, unless restrictions on the civilian use of key materials are properly timed and dovetailed to coincide with the actual increase in defense production, there will be idle materials, labor, and plant. This type of transitional decrease in production and em-

ployment could become a substantial drag on the total volume of business activity in the next few months unless the diversion of materials to defense is very carefully planned.

A few months ago, considerable concern was expressed over an excessive rate of production in certain key industries. Although expanding defense production has removed or at least deferred this problem for the time being, it may be well to examine the basis for such fears especially in view of the truce negotiations in Korea. Many felt, for example, that the rate of production in automobiles, steel, and in the construction industry was higher than could be sustained in ordinary peacetime conditions.

There was some evidence to support this view. Construction, for example, accounted for 7.8 per cent of the total value of all goods and services produced in 1950. This is rather high on a historical basis, the percentage being 6.8 in 1948, 5.4 in 1939, and 7.5 in 1929. Residential construction was equal to 6.2 per cent of personal income after taxes in 1950, as compared with 3.8 per cent in 1948, 3 in 1939, and 3.4 in 1929. Consumers spent 4.5 per cent of their income after taxes for automobiles in 1950, as compared with 3.1 per cent in 1948, 3.2 in 1937, and 3.5 in 1929.

The unusually high levels of production in these key industries provided some basis for doubt as to whether they could be maintained in a peace-time economy. If international tension should subside and the defense program should be cut back, there might again be some cause for concern as to our ability to maintain present rates of production in these industries. At present, however, the prospects are that imbalance, if any, between supply and demand for individual products is more likely to be on the side of shortages of important consumer durable goods than excessive production.

Other Maladjustments

A third requirement for stability is a smooth flow of goods from producer to consumer. An excessive accumulation of inventories or excessive speculation in securities can cause trouble—note, for example, the speculation in securities in 1929 and the inventory recessions of 1937 and 1949.

Inventory accumulation means that producers are turning out goods faster than consumers are buying them. It, therefore, adds to total demand. Once inventory accumulation stops, this source of demand disappears and if businessmen liquidate inventories, consumption exceeds the current rate of production. The heavy accumulation of inventories recently has aroused concern with respect to the near-term outlook. In trying to appraise the seriousness of the inventory situation, several points should be kept in mind. One is that the major part—perhaps as much as two-thirds—of the increase represents an increase in book values brought about by the sharp rise in prices. Second, inventories, in general, do not appear excessive in relation to sales on the basis of past ratios. Finally, an important part of the increase in inventories has been in manufacturers' raw materials and, more recently, goods in process. In part, this represents the building up of stocks in preparation for defense contracts.

It is unlikely, however, that inventory accumulation will continue to be a significant source of demand during the remainder of the year. Inventory liquidation would mean that consumption would have to exceed production by that amount, and would be a still further depressing factor.

HAZARDS OF FORECASTING

Peering into the future for a picture of business conditions as they will be even a few months hence is an essential task for effective planning, but it is also a difficult one. Even though we strain our eyes to the utmost, the picture is never clear, and if the picture should appear crystal clear it is more than likely a mirage stemming from defective vision. Forecasting is inherently hazardous: first, because all of the parts which will enter into the picture are not available no matter how carefully we search for them; and, second, because factors are always present which tend to distort our view.

One of the major handicaps in forecasting is that parts which are presently missing may become major elements in the final picture several months hence. In other words, some parts of the jigsaw puzzle are nearly always missing. It is important, therefore, that we keep this particular hazard at a minimum by locating as many of the parts of the puzzle as possible.

There is an increasing amount of business and financial information which we can draw on in attempting to supply the outline of the picture we are trying to sketch. One difficulty with much of this information is that it reflects what has happened, and with a considerable time lag. Moreover, a mass of data in itself provides only a smudge on the business horizon. To get a definite picture from

this mass of information, we must have some theoretical framework to guide our analysis. And our theory or opinion as to the elements that are essential for a stable and high level of production and employment will largely determine the business picture we finally visualize. For example, is our framework centered primarily on the relation of investment to saving; an inherent tendency toward a deficiency of consumer purchasing power and under-consumption; maladjustments in production; or the relation between the money supply and spending, and the flow of goods? Even though we use the same materials, the business picture we construct will largely reflect our theory of the controlling factors shaping its course.

Even though our business picture be fashioned from the best material and from the use of the most competent theoretical knowledge available, it must be recognized that, to some extent, it will usually reflect the filling in of missing parts by assumption. Some parts of this jigsaw puzzle are beyond our range of vision—even in short-term forecasting. For example, we assume that the international situation will remain the same but it does not. The North Koreans decided to take over South Korea, the United States promptly decided to resist Communist aggression in Korea, and launched a huge rearmament program. Even though international tension indicated something like this was probable, who could have foretold that it would occur in mid-1950 instead of the end of the year or in 1951 or 1952? In internal affairs, we assume that Government policies will be thus and so, but who can foresee the steps that Government will take and when? Yet, Government policies with respect to wages, prices, taxes, debt management, credit, rearmament, and a host of other things have an important influence on production, prices, and income. We assume that people will react in certain ways—for example, that they will spend about the same proportion of the funds they have available—but it does not take a student of psychology to see that we often react in unusual ways. We may spend more than our incomes or less; and we may spend it for miniature golf, yo-yo tops, and Cadillacs instead of for more or better food, clothes, and shelter. These are only a few illustrations of the gaps the forecaster is usually compelled to fill in by assumption—and even though carefully contrived, some of his assumptions are likely to be wrong.

A second major hazard confronting the forecaster is that of maintaining the proper perspective. Great care must be exercised to avoid anything which tends to distort our vision. One danger is the tendency to interpret the future in terms of the past. "All experience is an arch to build upon" but future events are unlikely to follow exactly the pattern of the past. The valuable lesson of experience must be tempered with a sensitivity to changes which may modify events in the future. It is often difficult to determine whether apprehension over the business outlook stems from what one sees ahead or from memory of what has happened in the past.

Another difficulty in getting a clear and undistorted picture is the tendency to give undue weight to the special situation confronting the individual making the forecast. To a merchant with large inventories and lagging sales, excessive inventories probably appear to be the primary problem; to the manufacturer unable to get an adequate supply of raw materials, shortages of material appear the key factor; and to the laborer having difficulty in meeting his bills which have soared because of high prices, a lack of purchasing power appears as a serious, perhaps insurmountable, drag on production and employment. This very human tendency of viewing the prospects of the entire economy in terms of our personal situation frequently results in an improper weighting of the various elements and a distorted picture of the business outlook.

A third factor which frequently distorts our perspective is the opinion we hold when we begin our analysis. A noted writer once said, "Most of our reasoning consists of starting out with a conclusion and marshalling all of the facts we can get to support it." Normally, the business forecaster begins his analysis with at least tentative views as to the business outlook. Hence, there is a strong tendency to weight unduly the facts and the figures which support these views and to discount as relatively unimportant those which do not. We must always be on guard lest the views we start with lead us to an incorrect analysis and a distorted picture of business prospects.

CONCLUSIONS

An appraisal of the important elements in the current business and financial situation indicates that high levels of production, employment, and income are likely to continue for some time. There is a real possibility, however, that the uptrend may be interrupted for short periods by shifts in consumer and business psychology and by transitional shut-downs and unemployment as an increasing proportion of materials, manpower, and plant is shifted from civilian to defense production.

The threat of a recession stems primarily from a reduced investment in inventories as accumulation ceases or even turns into liquidation, hesitant consumer buying which might be intensified by peace in Korea, a further decline in residential construction, and restrictions on the civilian use of strategic materials which may cut back civilian production faster than defense production expands.

Tending to offset these weaknesses, however, are forces of great underlying strength. The major direct impact of the defense program is yet to be felt. Actual defense production and the disbursement of appropriated funds are just beginning to show substantial increases. While an armistice in Korea might slow up the defense program, it is just as likely to retard Congressional action to siphon off enough income to meet the growing defense expenditures. If so, deficit financing would enlarge incomes and might become a substantial inflationary force. A second factor lending strong support to a high level of income and business activity is a record volume of business capital expenditures which seems assured for the remainder of the year despite an element of hesitancy which might be introduced by a truce in Korea. Hence, the prospects are that both defense production and business capital expenditures will continue to pour a large stream of dollars into bank accounts and pay envelopes, with the result that consumers and businessmen will have a large volume of purchasing power at their disposal.

These props appear strong enough to sustain a very high level of business activity, although they do not preclude hesitant business for short periods because of an unwillingness of consumers and businessmen to spend, or of cutbacks in production and employment during the shift from civilian to defense production. Psychological winds which blow first in one direction and then the other frequently create ripples on the surface, but they do not determine the underlying depth and the volume of the spending stream. The possibility is a real one that the basic spending stream is likely to continue excessive in relation to the supply of civilian goods available at current prices.

Events of the past year demonstrate the sensitivity of our economy to world developments. In a world of conflicting ideologies and numerous potential trouble spots, our economy is subject to ever-increasing influences from abroad in addition to uncertainties at home which complicate the job of trying to clarify the "unforeseeable" future.

Additional copies of this issue are available upon request.

CURRENT TRENDS

Summary figures for the month of May indicate that the upward trend in business activity in the Third Federal Reserve District has been halted—if only temporarily.

Production in Pennsylvania factories, which had been rising almost continuously for over a year, declined during May. The drop in output was due to further reductions in nondurable plants where, apparently, defense orders have not been filling the gap created by the slackening of demand for civilian goods. The lowering of production schedules was accompanied by decreases in the size of work forces and payrolls. Despite the monthly decline, industrial activity showed considerable improvement over last year.

Consumer purchasing power continued high during May, but department store sales, seasonally adjusted, were below those of April. Nevertheless, the volume of sales, paced by apparel, topped that of a year earlier. Department store stocks also receded during the month for the first time since last July, but were still considerably greater than in 1950.

In May, residential construction contract awards declined from the previous month and were below those of the corresponding period a year ago for the first time since December 1949. However, non-residential awards—especially industrial—maintained a high rate.

Total loans showed little change at Third District reporting member banks in the four weeks to June 20. Business and real estate loans rose slightly, but were largely offset by declines in other types of loans. For the country as a whole reporting member bank loans rose less than 1 per cent.

The nation's private money supply gained slightly in May and was about $4.5 billion above a year ago. This was the second consecutive month of slow advance following the first quarter of the year during which deposits and currency held by business and individuals declined seasonally by $4½ billion.

SUMMARY	Third Federal Reserve District — Per cent change			United States — Per cent change		
	May 1951 from		5 mos. 1951 from	May 1951 from		5 mos. 1951 from
	mo. ago	year ago	year ago	mo. ago	year ago	year ago
OUTPUT						
Manufacturing production	− 2*	+13*	+16*	0	+15	+19
Construction contracts	+10	+15	+30	−2	+27	+25
Coal mining	+21	−15	− 6	−2	− 6	+14
EMPLOYMENT AND INCOME						
Factory employment	− 2*	+10*	+12*	−1	+ 9	+13
Factory wage income	− 1*	+25*	+29*	.....	.....	.....
TRADE**						
Department store sales	− 2	+ 4	+11	0	+ 4	+11
Department store stocks	− 4	+31	.....	−3	+28	.....
BANKING (All member banks)						
Deposits	0	+ 3	+ 4	−1	+ 5	+ 6
Loans	0	+25	+26	0	+26	+26
Investments	− 1	− 9	− 8	−1	− 9	− 8
U. S. Govt. securities	− 1	−13	−12	−1	−13	−12
Other	+ 1	+ 6	+ 7	−1	+14	+17
PRICES						
Wholesale	.....	.....	.....	0	+17	+19
Consumers	0†	+11†	+11†	0	+10	+10
OTHER						
Check payments	+ 2	+13	+19	+2	+17	+23
Output of electricity	− 4	+ 6	+10	.....	.....	.....

*Pennsylvania
**Adjusted for seasonal variation. †Philadelphia.

LOCAL CONDITIONS	Factory* — Employment		Factory* — Payrolls		Department Store — Sales		Department Store — Stocks		Check Payments	
	Per cent change May 1951 from		Per cent change May 1951 from		Per cent change May 1951 from		Per cent change May 1951 from		Per cent change May 1951 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Allentown	−1	+17	− 3	+36	.....	.....	.....	.....	+ 2	+17
Altoona	−2	+23	− 3	+60	.....	.....	.....	.....	+ 7	+18
Harrisburg	−1	+13	− 1	+32	.....	.....	.....	.....	+ 3	+22
Johnstown	−4	+ 7	− 3	+26	.....	.....	.....	.....	+ 4	+21
Lancaster	−3	+ 7	− 4	+21	+18	− 2	−8	+19	+15	+15
Philadelphia	−2	+10	− 3	+24	+ 5	+ 2	−6	+32	+ 1	+12
Reading	−2	+ 6	− 5	+18	− 1	+ 4	−6	+32	+ 5	+18
Scranton	−9	− 5	−11	+ 1	.....	.....	.....	.....	+ 5	+ 3
Trenton	.....	.....	.....	.....	+ 9	+13	−1	+33	− 2	+10
Wilkes-Barre	−2	+ 5	0	+20	+ 6	− 6	−7	+29	+ 7	+20
Williamsport	+2	+14	− 1	+34	.....	.....	.....	.....	+ 4	+24
Wilmington	−1	+10	+ 1	+28	.....	.....	.....	.....	+ 4	+22
York	−4	− 1	− 2	+14	+11	+15	−4	+27	0	+23

*Not restricted to corporate limits of cities but covers areas of one or more counties.

MEASURES OF OUTPUT

	Per cent change: May 1951 from month ago	Per cent change: May 1951 from year ago	Per cent change: 5 mos. 1951 from year ago
MANUFACTURING (Pa.)	− 2	+ 13	+16
Durable goods industries	0	+ 22	+26
Nondurable goods industries	− 4	+ 2	+ 5
Foods	0	+ 2	+ 3
Tobacco	−10	− 4	+ 4
Textiles	− 8	− 5	+ 2
Apparel	−12	− 3	+ 4
Lumber	0	0	+ 4
Furniture	− 2	− 9	− 2
Paper	− 2	+ 11	+13
Printing and publishing	− 2	+ 1	+ 1
Chemicals	0	+ 15	+16
Petroleum and coal products	− 2	0	+ 4
Rubber	− 1	+ 25	+27
Leather	− 8	− 3	+ 3
Stone, clay and glass	0	+ 13	+17
Primary metal industries	+ 1	+ 20	+25
Fabricated metal products	− 1	+ 28	+35
Machinery (except electrical)	0	+ 25	+31
Electrical machinery	− 1	+ 20	+22
Transportation equipment	+ 4	+ 32	+27
Instruments and related products	+ 2	+ 34	+37
Misc. manufacturing industries	0	+ 27	+25
COAL MINING — CONTRACT AWARDS (3rd F. R. Dist.)†	+10	+ 15	+30
Residential	−18	− 11	+26
Nonresidential	+50	+144	+85
Public works and utilities	−10	− 61	−28
CRUDE OIL (3rd F. R. Dist.)**	+ 4	0	+ 3

*U.S. Bureau of Mines.
**American Petroleum Inst. Bradford field.
†Source: F. W. Dodge Corporation. Changes computed from 3-month moving averages, centered on 3rd month.

EMPLOYMENT AND INCOME

Pennsylvania Manufacturing Industries* Indexes (1939 avg. =100)	Employment: May 1951 (Index)	Employment: Per cent change from mo. ago	Employment: Per cent change from year ago	Payrolls: May 1951 (Index)	Payrolls: Per cent change from mo. ago	Payrolls: Per cent change from year ago	Average Weekly Earnings: May 1951	Average Weekly Earnings: % chg. from year ago	Average Hourly Earnings: May 1951	Average Hourly Earnings: % chg. from year ago
All manufacturing	140	−2	+10	396	− 1	+25	$63.47	+14	$1.581	+12
Durable goods industries	170	0	+17	462	+ 1	+35	70.21	+15	1.692	+11
Nondurable goods industries	111	−4	+ 1	309	− 5	+10	53.41	+10	1.400	+10
Foods	118	−1	+ 2	293	+ 2	+12	55.27	+10	1.351	+ 9
Tobacco	86	−6	0	218	− 9	+ 5	33.06	+ 5	.924	+ 9
Textiles	79	−5	− 3	228	− 9	+ 5	51.30	+ 8	1.378	+11
Apparel	132	−6	− 1	365	−12	+ 5	39.19	+ 6	1.143	+ 9
Lumber	159	0	− 3	416	0	+ 8	45.55	+11	1.091	+ 8
Furniture	125	−4	−10	363	− 4	− 5	53.41	+ 5	1.234	+ 5
Paper	149	0	+ 7	433	− 2	+21	62.65	+12	1.452	+ 9
Printing and publishing	119	−1	0	308	− 2	+ 6	73.55	+ 6	1.873	+ 5
Chemicals	153	0	+12	432	+ 1	+27	67.11	+13	1.580	+10
Petroleum and coal products	155	0	+ 1	418	− 3	+ 9	81.14	+ 8	1.991	+ 9
Rubber	237	−3	+20	714	0	+44	74.85	+20	1.770	+14
Leather	84	−7	− 6	216	− 7	+ 5	44.33	+11	1.217	+ 9
Stone, clay and glass	147	0	+10	416	+ 1	+27	64.84	+15	1.607	+13
Primary metal industries	142	0	+16	398	+ 1	+34	78.33	+16	1.899	+12
Fabricated metal products	184	−1	+22	512	− 1	+45	66.00	+18	1.581	+13
Machinery (except electrical)	244	0	+19	683	0	+36	71.06	+14	1.636	+11
Electrical machinery	267	−1	+21	588	− 2	+31	61.57	+ 8	1.544	+ 8
Transportation equipment	166	+3	+28	447	+ 5	+44	76.42	+12	1.879	+ 9
Instruments and related products	187	0	+29	557	+ 2	+48	67.96	+15	1.611	+11
Misc. Manufacturing industries	148	0	+23	393	+ 1	+40	54.26	+14	1.285	+11

*Production workers only.

TRADE

Third F. R. District Indexes: 1935-39 Avg. =100 Adjusted for seasonal variation	May 1951 (Index)	Per cent change: May 1951 from month ago	Per cent change: May 1951 from year ago	Per cent change: 5 mos. 1951 from year ago
SALES				
Department stores	281	− 2	+ 4	+11
Women's apparel stores	214	− 8	− 4	+ 4
Furniture stores	.....	+14*	− 6*	+10*
STOCKS				
Department stores	318p	− 4	+31	.....
Women's apparel stores	242	− 7	+19	.....
Furniture stores	.....	− 6*	+31*	.....

Recent Changes in Department Store Sales in Central Philadelphia	Per cent change from year ago
Week ended June 2	− 6
Week ended June 9	0
Week ended June 16	− 5
Week ended June 23	+ 3
Week ended June 30	− 7
Week ended July 7	+21

* Not adjusted for seasonal variation. p-preliminary.

Departmental Sales and Stocks of Independent Department Stores Third F. R. District	Sales: % chg. May 1951 from year ago	Sales: % chg. 5 mos. 1951 from year ago	Stocks (end of month): % chg. May 1951 from year ago	Stocks (end of month): Ratio to sales (months' supply) May 1951	Stocks (end of month): Ratio to sales (months' supply) May 1950
Total — All departments	0	+ 7	+30	3.5	2.7
Main store total	0	+ 8	+30	3.9	3.0
Piece goods and household textiles	− 5	+14	+35	4.8	3.4
Small wares	− 2	+ 1	+15	4.2	3.6
Women's and misses' accessories	+ 5	+ 6	+16	3.2	2.9
Women's and misses' apparel	+ 5	+ 8	+11	2.1	2.0
Men's and boys' wear	+ 5	+ 9	+32	4.9	3.9
Housefurnishings	− 5	+10	+45	4.7	3.1
Other main store	+ 1	+ 3	+55	4.2	2.8
Basement store total	− 1	+ 4	+30	2.2	1.6
Domestics and blankets	−10	+14	+93	4.3	2.0
Small wares	−11	−10	+10	2.1	1.7
Women's and misses' wear	+ 3	+ 3	+11	1.3	1.2
Men's and boys' wear	+ 4	+ 7	+32	2.7	2.1
Housefurnishings	−11	− 1	+49	2.9	1.7
Shoes	+ 7	+10	+19	2.9	2.6
Nonmerchandise total	+ 4	+ 5	.....	.....	.....

CONSUMER CREDIT

Sale Credit — Third F. R. District	Sales: % chg. May 1951 from year ago	Sales: % chg. 5 mos. 1951 from year ago	Receivables (end of month): % chg. May 1951 from year ago
Department stores			
Cash	− 1	+ 5	.....
Charge account	+ 6	+14	+17
Instalment account	−11	− 3	+ 2
Furniture stores			
Cash	− 3	+10	.....
Charge account	+69	+40	.....
Instalment account	+13	+16	+ 4

Loan Credit — Third F. R. District	Loans made: % chg. May 1951 from year ago	Loans made: % chg. 5 mos. 1951 from year ago	Loan balances outstanding (end of month): % chg. May 1951 from year ago
Consumer instalment loans			
Commercial banks	−13	− 6	− 5
Industrial banks and loan companies	+10	+ 8	+11
Small loan companies	+18	+14	+11
Credit unions	+ 4	+ 9	+21

PRICES

Index: 1935-39 average = 100	May 1951 (Index)	Per cent change from: month ago	Per cent change from: year ago
Wholesale prices—United States	227	0	+17
Farm products	263	−1	+21
Foods	237	+1	+17
Other	211	0	+16
Consumer prices			
United States	185	0	+10
Philadelphia	186	0	+11
Food	221	+1	+14
Clothing	205	0	+13
Rent	123	0	+ 1
Fuel	150	−2	+ 6
Housefurnishings	225	0	+18
Other	171	0	+12

Weekly Wholesale Prices—U.S. (Index: 1935-39 average = 100)	All commodities	Farm products	Foods	Other
Week ended June 12	225	261	236	210
Week ended June 19	225	262	237	210
Week ended June 26	224	260	236	209
Week ended July 3	224	261	237	208

Source: U.S. Bureau of Labor Statistics.

BANKING

MONEY SUPPLY AND RELATED ITEMS — United States (Billions $)	May 30 1951	Changes in—: five weeks	Changes in—: year
Money supply, privately owned	173.7	+ .4	+ 4.5
Demand deposits, adjusted	89.5	0	+ 4.5
Time deposits	59.3	+ .1	− .2
Currency outside banks	24.9	+ .3	+ .2
Turnover of demand deposits	22.0*	−2.2*	+11.1*
Commercial bank earning assets	125.1	− .3	+ 3.9
Loans	54.5	+ .1	+10.4
U.S. Government securities	58.1	− .3	− 6.6
Other securities	12.5	− .1	+ 1.5
Member bank reserves held	18.5	− .7	+ 2.7
Required reserves (estimated)	18.2	− .3	+ 2.9
Excess reserves (estimated)	.3	− .4	− .2

Changes in reserves during 5 weeks ended May 30 reflected the following:

(Billions $)	Effect on reserves
Decrease in Reserve Bank holdings of Governments	−.6
Increase of currency in circulation	−.3
Other Federal Reserve Bank credit	−.2
Increase in Reserve Bank loans	+.4
Change in reserves	−.7

* Annual rate for the month and per cent changes from month and year ago at leading cities outside N. Y. City.

OTHER BANKING DATA	June 20 1951	Changes in—: four weeks	Changes in—: year
Weekly reporting banks—leading cities			
United States (*billions* $):			
Loans—			
Commercial, industrial and agricultural	19.2	+ .1	+ 5.7
Security	2.0	0	− .3
Real estate	5.5	0	+ .9
To banks	.5	0	+ .2
All other	5.9	0	+ 1.0
Total loans—gross	33.1	+ .1	+ 7.5
Investments	37.8	+ .9	− 4.8
Deposits	80.9	+2.1	+ 4.7
Third Federal Reserve District (*millions* $):			
Loans—			
Commercial, industrial and agricultural	760	+ 5	+242
Security	44	− 7	− 8
Real estate	146	+ 6	+ 29
To banks	6	− 1	− 8
All other	387	− 2	+ 56
Total loans—gross	1,343	+ 1	+311
Investments	1,510	− 24	−325
Deposits	3,214	+ 12	+ 59
Member bank reserves and related items			
United States (*billions* $):			
Member bank reserves held	19.5	+ .9	+ 3.3
Reserve Bank holdings of Governments	22.8	+ .4	+ 5.1
Gold stock	21.8	0	− 2.5
Money in circulation	27.5	+ .2	+ .6
Treasury deposits at Reserve Banks	.4	− .3	− .1
Federal Reserve Bank of Phila. (*millions* $):			
Loans and securities	1,450	+ 27	+270
Federal Reserve notes	1,650	+ 15	+ 50
Member bank reserve deposits	883	+ 20	+115
Gold certificate reserves	1,198	− 26	−127
Reserve ratio (%)	46.0%	− .1%	− 6.9%